

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 PA-02 PRS-01 /105 W

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R 221939Z AUG 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 2354

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 02 BONN 13762

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING AUGUST 21)

REF.: BONN 12024

1. CAPITAL MARKET DEVELOPMENTS: THE CENTRAL CAPITAL
MARKET COMMITTEE ON AUGUST 20 DECIDED TO CONTINUE
THROUGH SEPTEMBER THE SUSPENSION OF THE FLOATATION OF
DEUTSCHEMARK-DENOMINATED FOREIGN BONDS (SEE REFTEL) AND
ANNOUNCED THE POSTPONEMENT OF FURTHER DOMESTIC BOND
FLOATATIONS AND PRIVATE PLACEMENTS. HOWEVER, THE VARIOUS
GERMAN LAENDER GOVERNMENTS HAVE BECOME INCREASINGLY
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ACTIVE IN THE PLACEMENT OF SCHULDSCHEINE IN EFFORTS TO

RAISE THEIR NECESSARY CAPITAL. A SCHULDSCHEIN IS A DOCUMENT ACKNOWLEDGING INDEBTEDNESS AND UNDER GERMAN LAW IS NOT TECHNICALLY CONSIDERED A SECURITY (WERT-PAPIER). THE FINANCIAL PRESS REPORTED THAT SCHULDSCHEINE PLACEMENT BY THE LAENDER WAS BEGINNING TO HAVE AN EFFECT ON THE DOMESTIC BOND MARKET, PARTICULARLY ON MORTGAGE BONDS (PFANDBRIEFE) WHERE SLIGHT YIELD INCREASES WERE REPORTED. SELLING PRESSURE ON PUBLIC BONDS CONTINUED DURING THE WEEK BUT AT A MUCH MORE MODERATE LEVEL THAN IN THE RECENT PAST. THE BUNDES-BANK REPORTEDLY HAD LITTLE DIFFICULTY MAINTAINING STABLE PRICES, ALTHOUGH THE LEVEL OF BUNDES BANK INTERVENTION WAS NOT ANNOUNCED.

2. TRADE SURPLUS: THE WEST GERMAN TRADE BALANCE WAS IN SURPLUS BY DM 3.7 BILLION IN JULY, AN INCREASE FROM THE DM 3.1 BILLION RECORDED IN JUNE AND THE HIGHEST REPORTED THIS YEAR. THE JULY SURPLUS, HOWEVER, REMAINED CONSIDERABLY UNDER THE SURPLUS FOR THE SAME MONTH LAST YEAR, WHICH AMOUNTED TO DM 4.5 BILLION. JULY EXPORTS ROSE TO DM 19.05 BILLION (FROM DM 18.55 IN JUNE) AND IMPORTS DECLINED SLIGHTLY TO DM 15.34 BILLION (FROM DM 15.46 IN JUNE). THIS REPRESENTED A DROP OF 7 PERCENT IN EXPORTS AND 4 PERCENT IN IMPORTS, AGAINST THE SAME MONTH LAST YEAR. FOR THE FIRST SEVEN MONTHS OF 1975 GERMANY HAD A TRADE SURPLUS OF DM 23.42 BILLION, COMPARED TO DM 29.73 BILLION IN THE SAME PERIOD IN 1974. TRANSFER PAYMENT OUTFLOWS AND THE TRADITIONALLY HIGH SERVICE DEFICIT (DUE IN LARGE MEASURE DURING THE SUMMER TO FOREIGN TRAVEL BY GERMANS) LOWERED THE CURRENT ACCOUNT SURPLUS TO DM 100 MILLION (FROM DM 723M IN JUNE). THE JULY 1974 CURRENT ACCOUNT SURPLUS WAS DM 987 MILLION.

3. BANKING SUPERVISORY AUTHORITY CLOSES SMALL BANK: ON AUGUST 18 THE GERMAN BANKING SUPERVISORY AUTHORITY WITHDREW THE BANKING LICENSE OF THE HANDELSFINANZ-BANK GMBH., MUNICH, A SMALL INSTITUTION WHICH SPECIALIZED IN CONSTRUCTION FINANCING. THE BANK DID NOT OFFER SAVINGS OR CHECKING SERVICES. THE CLOSURE, ACCOMPANIED UNCLASSIFIED

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BY A LIQUIDATION ORDER, WAS REPORTEDLY DUE TO SERIOUS ADMINISTRATIVE AND BOOKKEEPING IRREGULARITIES, INCLUDING CONCEALMENT OF LARGE CREDITS, DISCOVERED IN A SPECIAL AUDIT. AT THE END OF 1974 THE BANK HAD A BALANCE SHEET TOTAL OF DM 41.5 MILLION. EFFORTS BY THE BANKING AUTHORITY TO MOUNT A RESCUE EFFORT WERE UNSUCCESSFUL.

4. FOREIGN EXCHANGE MARKET: DURING THE REPORTING WEEK
SPOT AND FORWARD DOLLARS DEVELOPED AS FOLLOWS:

FORWARD DOLLARS (DISCOUNTS IN PCT. P.A.)			
SPOT DOLLARS	ONE-MONTH	THREE-MONTH	
AUGUST 14	DM 2.5795	-4.1	-3.9
15	2.5779	-4.7	-4.0
18	2.5749	-4.7	-4.0

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USMISSION OECD PARIS

AMCONSUL FRANKFURT

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19 2.5665 -4.2 -4.1

20	2.5562	-3.8	-3.9
21	2.5710	-4.0	-3.9

WITHIN THE JOINT FLOAT ALL FLOAT CURRENCIES REMAINED
BELOW THEIR DEUTSCHEMARK UPPER INTERVENTION RATES.

5. MONEY MARKET: THE GERMAN MONEY MARKET CONTINUED TO
EASE THROUGHOUT THE WEEK. DURING THE REPORTING WEEK
FRANKFURT INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY

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AUGUST 14 0.5-1.0 2.5-3.0 3.5-4.0

15	0.25-0.75	2.2-2.7	3.2-3.7
18	0.3-0.4	2.3-2.7	3.4-3.8
19	0.4-0.6	2.3-2.7	3.4-3.6
20	0.4-0.6	2.3-2.7	3.4-3.8
21	0.4-0.6	2.3-2.7	3.4-3.8

6. BUNDES BANK FOREIGN POSITION: IN THE SECOND WEEK OF
AUGUST (AUGUST 8-15) THE BUNDES BANK'S NET FOREIGN
POSITION DECLINED BY DM 0.2 BILLION TO DM 79.9 BILLION.
HOLDINGS OF LIQUID FOREIGN EXCHANGE FELL BY DM 296
MILLION AND GROSS LIABILITIES BY DM 97 MILLION.

7. BANK LIQUIDITY: IN THE SECOND WEEK OF AUGUST BANK
LIQUIDITY INCREASED BY DM 1.1 BILLION. FACTORS
INCREASING LIQUIDITY WERE A REDUCTION IN THE BANKS'
HOLDINGS OF RESERVES AT THE BUNDES BANK (DM 2.5 BILLION)
AND A DECLINE IN CURRENCY IN CIRCULATION (DM 0.5
BILLION). OTHER FACTORS, NET, INCREASED LIQUIDITY BY
DM 1.1 BILLION. BANK LIQUIDITY WAS REDUCED BY AN
INCREASE IN OFFICIAL NET ASSETS HELD AT THE BUNDES BANK
(DM 2.8 BILLION) AND THE ABOVE-MENTIONED DECLINE IN
THE BUNDES BANK'S FOREIGN POSITION. DURING THE SECOND
WEEK OF AUGUST BANKS REDUCED REDISCOUNT BORROWINGS BY
DM 1.1 BILLION.

8. BOND MARKET: DURING THE REPORTING WEEK FAZ AVERAGE
YIELDS TO MATURITY OF OUTSTANDING DOMESTIC BONDS
DEVELOPED AS FOLLOWS:

8 PERCENT 7 PERCENT 6 PERCENT

AUGUST 14	8.78	8.88	8.37
15	8.78	8.86	8.36
18	8.79	8.87	8.42
19	8.77	8.87	8.41

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21	8.79	8.89	8.4O

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